

"(III) any adjustment to the basis of a participant's interest in the common trust fund as a result of the gain so recognized shall be treated as occurring immediately before the exchange referred to in paragraph (1)(B).

If the transfer referred to in paragraph (1)(A) is to two or more regulated investment companies, the basis increase under subclause (II) shall be allocated among such companies on the basis of the respective fair market values of the assets received by each of such companies.

"(ii) ASSUMED LIABILITIES.—For purposes of clause (i), the term 'assumed liabilities' means the aggregate of—

"(I) any liability of the common trust fund assumed by any regulated investment company in connection with the transfer referred to in paragraph (1)(A), and

"(II) any liability to which property so referred is subject.

"(4) COMMON TRUST FUND MUST MEET DIVERSIFICATION RULES.—

This subsection shall not apply to any common trust fund which would not meet the requirements of section

368(a)(2)(F)(ii) if it were a corporation. For purposes of the preceding sentence, Government securities shall not be treated as securities of an issuer in applying the 25-percent test and such securities shall not be excluded for purposes of determining total assets under clause (iv) of section 368(a)(2)(F). "

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to transfers after December 31, 1995.

SEC. 1806. QUALIFIED STATE TUITION PROGRAMS.

(a) IN GENERAL.—Subchapter F of chapter 1 (relating to exempt organizations) is amended by adding at the end the following new part:

"PART VIII—QUALIFIED STATE TUITION PROGRAMS

"Sec. 529. Qualified State tuition programs.

"SEC. 529. QUALIFIED STATE TUITION PROGRAMS.

"(a) GENERAL RULE.—A qualified State tuition

program shall
be exempt from taxation under this subtitle.
Notwithstanding the
preceding sentence, such program shall be subject
to the taxes
imposed by section 511 (relating to imposition of tax
on unrelated
business income of charitable organizations).

"(b) QUALIFIED STATE TUITION PROGRAM.—For
purposes of this
section—

"(1) IN GENERAL.—The term "qualified State tuition pro-
gram" means a program established and maintained by a
State

or agency or instrumentality thereof—

"(A) under which a person—

(i) may purchase tuition credits or
certificates
on behalf of a designated beneficiary
which entitle
the beneficiary to the waiver or payment of
qualified
higher education expenses of the
beneficiary, or